

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF CHALMERS

WHITE COUNTY, INDIANA

January 1, 2015 to December 31, 2018



**FILED**  
12/05/2019



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Debra K. Clawson	01-01-12 to 12-31-15
	Jeffrey Resnick	01-01-16 to 09-24-18
	(Vacant)	09-25-18 to 11-12-18
	Melissa Summers	11-13-18 to 12-31-23
President of the Town Council	Marcus King	01-01-15 to 12-31-16
	Clark Gick	01-01-17 to 12-31-19



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF CHALMERS, WHITE COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Chalmers (Town), for the period from January 1, 2015 to December 31, 2018. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the Town. It should be read in conjunction with our Financial Statements Audit Report of the Town, which provides our opinion on the Town's financial statements. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

October 24, 2019

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CLERK-TREASURER  
TOWN OF CHALMERS

CLERK-TREASURER  
TOWN OF CHALMERS  
AUDIT RESULTS AND COMMENTS

**CONDITION OF RECORDS**

A similar comment appeared in prior Report B45504.

*Condition and Context*

Financial records presented for audit were incomplete and not reflective of the activity of the Town and Utility funds. Some of the discrepancies included:

1. Two bond payments totaling \$14,610 that were due in July 2017 were paid timely, but were not posted to the ledger until January 2018.
2. On August 27, 2016, and June 23, 2017, disbursements of \$1,966 each were made from the Water Utility Operating fund as a transfer out, but there was no corresponding receipts to the appropriate fund.
3. On January 4, 2017, a receipt for \$7,577 was recorded in the BONY WW Bond & Interest fund as a transfer in, but there was no corresponding disbursement recorded in the appropriate fund.
4. The Wastewater Grant Fund received grant proceeds of \$1,500 in 2015 and \$12,000 in 2016. All of the grant proceeds were disbursed in 2016 as intended, but the \$1,500 disbursement was posted to the General Fund and the \$12,000 disbursement was posted to the Wastewater Utility Operating fund.

*Criteria*

All financial transactions related to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**BANK ACCOUNT RECONCILIATIONS**

Depository reconcilements of the fund balances to the depository balances were not accurate for calendar years 2015 through 2017. Prior year audit adjustments that netted to an overall increase of \$4,971 to various fund balances, were proposed, but not made to the records. After including the prior audit adjustments, outstanding checks, and deposits in transit, the depository balances still did not reconcile to the fund balances. The following is a comparison of the bank depository balances to the ledger balances as of December 31:

Years	Fund/ Ledger Balance	Reconciled Depository Balance	Difference Long/(Short) 12-31
2015	\$ 334,382	\$ 339,345	\$ 4,963
2016	438,435	423,153	(15,282)
2017	456,024	441,818	(14,206)

CLERK-TREASURER  
TOWN OF CHALMERS  
AUDIT RESULTS AND COMMENTS  
(Continued)

The following discrepancies related to the reconciliation were identified as follows:

1. On August 31, 2016, the Town recorded a receipt for \$17,834 in the General Fund as an adjustment to balance the bank to the Town's ledger, but this adjustment was made without investigating whether an adjustment should have been made to any of the Utility funds.
2. A Wastewater Utility bank account was closed on September 9, 2016, and the balance was transferred into the Town's general bank account. A receipt for the bank transfer was incorrectly recorded in the Wastewater Utility funds for the amount that was transferred. The Town made a corresponding correction, but not until May 31, 2018. This error caused the Town not to reconcile by \$14,610.
3. The bank accounts were not reconciled to the Town's records in a timely manner. In 2015, the bank reconciliations were prepared up to 16 months after the date of the bank statements. During 2016 through 2018, the reconciliations were prepared up to 5 months after the date of the bank statements. Monthly reconciliations were not performed during the audit period for a Utility bank account that was opened during 2016 and several State Revolving fund bank accounts.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledgers, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

### ***INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING***

There were deficiencies in the internal control system of the Town related to financial transactions and reporting. The Town had not established a proper system of internal controls as they had not separated incompatible activities related to cash and investments, receipts, vendor and payroll disbursements, and financial close and reporting. The failure to establish these controls could have enabled material misstatements to occur and remain undetected.

#### ***Cash and Investments***

Controls had not been properly implemented to ensure that all bank account reconciliations had an independent review by someone other than the preparer.

#### ***Receipts***

The Clerk-Treasurer issued, recorded, and deposited daily receipts without evidence of an independent review or oversight to ensure the accuracy and classification of the receipts to the proper funds and accounts.

CLERK-TREASURER  
TOWN OF CHALMERS  
AUDIT RESULTS AND COMMENTS  
(Continued)

*Vendor Disbursements*

The Clerk-Treasurer prepared the claims, verified the invoices to the claims, prepared the checks, and recorded the disbursements without a proper oversight, review, or approval process in place to ensure the accuracy and classification of the disbursements to the proper funds and accounts.

*Payroll Disbursements*

The Clerk-Treasurer prepared and recorded the payroll claims and prepared the checks for disbursement without oversight, review, or approval process in place to ensure the accuracy and classification of the payroll disbursements to the proper funds and accounts.

*Financial Close and Reporting*

Controls had not been developed to ensure that the year-end financial information had an independent review by someone other than the preparer either before or after it was submitted into the Indiana Gateway for Government Units reporting financial system.

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

**OVERDRAWN CASH BALANCES**

The following funds had overdrawn cash balances at December 31 for the following years:

CLERK-TREASURER  
TOWN OF CHALMERS  
AUDIT RESULTS AND COMMENTS  
(Continued)

Fund	Amount Overdrawn 12-31-15	Amount Overdrawn 12-31-16	Amount Overdrawn 12-31-17	Amount Overdrawn 12-31-18
LOCAL ROAD & STREET	\$ -	\$ 3,687	\$ 552	\$ -
PAYROLL	-	765	3,128	2,028
School Resource Officer (SRO)	-	-	-	1,991
ELECTRIC UTL OPERATING	55,362	-	-	-
WASTEWATER UTILITY OPERATING	217,151	242,611	207,597	173,119
WATER UTILITY OPERATING	46,214	26,287	42,915	34,760

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

**LATE SUBMISSION OF ANNUAL FINANCIAL REPORT**

The Town's Annual Financial Report for 2015 was not filed electronically until August 29, 2016, which was 182 days past the due date.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

**ELECTRIC UTILITY RATES**

The Town did not properly bill customers for electric service during the audit period. According to Ordinances No. 2011-6 and 2017-6 for Electric Rates, the Town should have billed a flat fee for residents and non-residents in addition to the usage of each KWH. The Town did not bill consumers the flat rate portion of their electric bill. The Town started billing the correct rates on September 5, 2019.

The Town's electric rates are also based on the amount of electricity used by kilowatts and cost associated with the purchase of power and energy. Because the cost of power and energy fluctuates, the Town Council adopted Ordinance No. 2008-7, called Tracker Adjustment for Electric Utility (Tracker), to help in recouping costs that were not covered by the current rate structure. The Tracker amount is adjusted every three months and is based upon the previous quarter's cost of electricity purchased. Every three months, the Town receives a report from the Indiana Municipal Power Agency informing them of the new rate for the Tracker. The Town billed consumers the wrong Tracker rate for December 2015.

Each governmental unit is responsible for complying with the ordinances, resolutions and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER  
TOWN OF CHALMERS  
EXIT CONFERENCE

The contents of this report were discussed on October 24, 2019, with Marcus King, Vice President of the Town Council, and Melissa Summers, Clerk-Treasurer.